

Message Text

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C O N F I D E N T I A L CARACAS 0286

E.O. 11652: GDS
TAGS: ENRG, VE
SUBJECT: OIL COMPANY PROBLEMS- ARCO

REF: 77 CARACAS 6356

1. SUMMARY. ARCO REFUSED TO AGREE TO A VERY HIGH LEVEL OF ASSET DEDUCTIONS AGAINST ONE OF ITS FORMER VENEZUELAN SUBSIDIARIES BUT NOW UNDERSTANDS THERE MAY BE AN EFFORT UNDERWAY TO FIX A MORE REASONABLE DEDUCTION. SETTLEMENT OF THE ASSET DEDUCTION ISSUE COULD RESULT IN THE PAYMENT BY THE GOV ON CLAIMS IT OWES TO THE COMPANIES. ARCO HAS RECEIVED PAYMENT ON A RELATIVELY SMALL BUT LONGSTANDING CLAIM RELATED TO OIL INVENTORIES. END SUMMARY.

2. OVER THE PAST FEW WEEKS, LOCAL ATLANTIC RICHFIELD (ARCO) REPRESENTATIVE TOM ROVELLO HAS PROVIDED THE FOLLOWING INFORMATION ON THE CURRENT STATUS OF VARIOUS ISSUES INVOLVING THE COMPANY. MUCH OF THIS INFORMATION WAS PROVIDED BY ROVELLO IN CONFIDENCE AND INVOLVES PROPRIETARY INFORMATION AND THEREFORE SHOULD NOT BE DISCUSSED

IN THE USG.

3. ASSET EVALUATION- ARCO WAS CALLED BEFORE THE RECEPTION
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COMMITTEE NOVEMBER 21 AND PRESSED TO SIGN AN ACTA DETAILING DEDUCTIONS FOR THE ASSETS OF SINCLAIR VENEZUELA OIL COMPANY, ONE OF ARCO'S TWO LOCAL SUBSIDIARIES. DEDUCTIONS AMOUNTED TO BS. 19.8 MILLION (\$4.6 MILLION) REPRESENTING 97 PERCENT OF THE COMPENSATION GRANTED FOR SINCLAIR'S PROPERTIES. ROVELLO REFUSED TO SIGN

THE ACTA AND SUBMITTED A REPORT TO THE COMMITTEE AND A LETTER TO

MINISTER OF ENERGY HERNANDEZ DESCRIBING THE REASON FOR THIS REFUSAL AND REFERRING TO THE UNCONSTITUTIONALITY UNDER VENEZUELAN LAW OF SUCH "CONFISCATION" OF PROPERTY. SHORTLY THEREAFTER, HE LEARNED THAT THE MINISTER ASKED VICE MINISTER AREVALO REYES TO REVIEW THE CASE. REYES REPORTEDLY WAS WILLING TO REDUCE THE CHARGES SLIGHTLY, CONTINGENT ON ARCO SIGNING THE ACTA, BUT REVERSION DIRECTOR CALDERON BERTI REPORTEDLY REFUSED TO GO ALONG WITH THIS REDUCTION. ROVELLO SAID THE PROPOSED REDUCTION WAS STILL UNSATISFACTORY. LAST WEEK ROVELLO TALKED TO ANOTHER MINISTRY OFFICIAL WHO SAID HE HAD BEEN APPOINTED BY THE MINISTER TO LOOK INTO SINCLAIR'S CASE AND DETERMINE IF ANY TECHNICAL REDUCTION WERE POSSIBLE. THIS OFFICIAL INDICATED THAT THE MINISTER ASKED FOR A FIGURE WHICH COULD BE CONSIDERED EQUITABLE UNDER THE TERMS OF THE NATIONALIZATION LAW REGARDLESS OF THE PREVIOUS DETERMINATION MADE BY THE DIRECTOR OF REVERSION. ROVELLO UNDERSTOOD THAT IF THE MINISTER DID ACCEPT THIS NEW FIGURE, IN PLACE OF THAT RECOMMENDED BY THE RECEPTION COMMITTEE, HE WOULD NOT NECESSARILY REQUIRE ARCO TO SIGN ITS ACTA. HE ALSO UNDERSTOOD THIS PROCESS WAS TO BE COMPLETED BY THE END OF JANUARY AND WAS THE RESULT OF PRESSURE FROM PRESIDENT PEREZ.

4. COMMENT: COMPENSATION GRANTED FOR THESE SINCLAIR PROPERTIES REPRESENTS ABOUT ONE QUARTER OF THE TOTAL GRANTED TO ARCO AT THE TIME OF NATIONALIZATION. MOST OF THE REMAINDER REPRESENTED COMPENSATION FOR ITS OTHER SUBSIDIARY, VARCO, WHICH WAS OPERATED AS A JOINT VENTURE BY SUN OIL AND THUS APPARENTLY WAS INCLUDED IN SUN'S RELATIVELY FAVORABLE ASSET SETTLEMENT. THE STATUS OF ARCO'S CONFIDENTIAL

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SINCLAIR PROPERTY IS UNIQUE IN THAT ITS DEPRECIATED OR NOTE BOOK VALUE WAS SUBSTANTIALLY LESS THAN 10 PERCENT OF ITS ORIGINAL COST, AND THUS THE COMPENSATION FOR THIS PROPERTY WAS LESS THAN THE CORRESPONDING DEPOSIT TO THE GUARANTEE FUND. THE AMOUNT GIVEN IN PARA 3 OF REFTEL AS COMPENSATION IS OVERSTATED SINCE IT INCLUDES PAYMENTS FOR ITEMS OTHER THAN THE COMPANY'S OPERATING ASSETS. END COMMENT.

5. BACK TAXES- ROVELLO SAID THERE HAS BEEN LITTLE MOVEMENT ON THESE CLAIMS IN RECENT WEEKS BUT UNDERSTANDS THE MINISTRY OF FINANCES SPECIAL COMMISSION HOPES TO COMPLETE ITS REPORT ON THESE CLAIMS BY THE END OF JANUARY.

6. COMPTROLLER'S CLAIM- ROVELLO REPORTED THAT A MINISTRY OF ENERGY OFFICIAL SUGGESTED THE TAX COURT MAY RULE ON THE FIRST OF THESE CASES (EXXON) IN THE VERY NEAR FUTURE AND THAT THIS RULING MAY BE FAVORABLE TO THE COMPANIES. CONTRARY TO ALL OTHER REPORTS, THIS OFFICIAL INDICATED THAT THE GOV WOULD NOT NECESSARILY APPEAL SUCH A DECISION TO THE SUPREME COURT.

7. OTHER ISSUES- AS IN THE CASE OF OTHER COMPANIES, ARCO HAS SIZEABLE CLAIMS OF ITS OWN PENDING AGAINST THE GOV AS A RESULT OF ADJUSTMENTS MADE IN THE NET BOOK VALUE OF ITS ASSETS FOR 1975 AND

OF CLAIMS MADE BY THE COMPANY FOR INVESTMENTS IN 1975 WHICH, FOR ONE REASON OR ANOTHER, WERE NOT REIMBURSED AS WAS PROVIDED FOR IN THE TAX LAW (CARACAS 12363). MOST OF THESE CLAIMS HAVE BEEN APPROVED BY THE MINISTRY AND ARCO, AS WELL AS THE OTHER COMPANIES, HAS BEEN ADVISED THAT THEY WOULD BE PAID ONCE THE ASSET DEDUCTIONS WERE SETTLED, SINCE IT WOULD ONLY BE THEN THAT THE MINISTRY OF ENERGY WOULD HAVE THE NECESSARY FUNDS AVAILABLE. ROVELLO SEEMED CONFIDENT THAT THESE PAYMENTS WOULD BE MADE ONCE THE ASSET ISSUE IS SETTLED.

8. ARCO ALSO HAD A UNIQUE PROBLEM INVOLVING PAYMENT DUE FOR OIL STOCKS ON HAND AT THE TIME OF NATIONALIZATION (SEE CARACAS 2404, MARCH 8, 1977, PARA 5). ROVELLO SAID THIS PROBLEM WAS RESOLVED IN MID-DECEMBER WHEN PETROLEOS DE VENEZUELA PAID ARCO FOR THE OIL
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STOCKS AT A PRICE LOWER THAN THAT REQUESTED BY THE COMPANY BUT AT THE SAME TIME ARCO RECEIVED A TAX REFUND OF SEVERAL MILLION BOLIVARES (BS 4.28 EQUALS \$1) FROM THE MINISTRY OF FINANCE.

9. FINALLY, ROVELLO COMMENTED THAT IT HAS BECOME INCREASINGLY EVIDENT TO HIM SINCE HIS ARRIVAL LAST SPRING THAT ARCO'S WITHDRAWAL FROM VENEZUELA IN MAY 1976 AND ITS FAILURE TO SIGN A TECHNICAL SERVICES CONTRACT ALIENATED MINISTRY OF ENERGY OFFICIALS. SINCE EARLY 1977, HOWEVER, HE AND ARCO'S LOCAL ATTORNEY HAVE SUCCEEDED IN REDUCING THE ASSET CLAIMS AGAINST SINCLAIR FROM THEIR ORIGINAL LEVEL OF ABOUT \$10 MILLION TO THE CURRENT \$4.6 MILLION AND HAVE ALSO SETTLED THE OIL INVENTORY PROBLEM.
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